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Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 SOE-02 AID-05 CEA-01
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OES-07 SP-02 SS-15 STR-07 TRSE-00 ACDA-12 NRC-05
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TO SECSTATE WASHDC 1367
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMCONSUL FLORENCE
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USEEC ALSO FOR EMBASSY; USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: ENRG, IT
SUBJECT: ITALIAN ENERGY PLAN

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REF: (A) 77 ROME 16789; (B) ROME 4151; (C) ROME 2990 (NOTAL,
(D) CANBERRA 1403 (NOTAL); (E) ROME 4458

1. BEGIN SUMMARY: AS MENTIONED IN REFTEL B, CIPE (THE INTER-
MINISTERIAL PLANNING COMMITTEE) HAS ACTED TO IMPLEMENT AN UP-
DATED ENERGY PLAN BASED ON THE OCTOBER 5, 1977 CHAMBER OF
DEPUTIES RESOLUTION (REFTEL A). THIS CABLE REPORTS IN DETAIL

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THE CIPE DECISIONS, WHICH INCLUDE ACTION TO LIMIT PETROLEUM REFINING CAPACITY, TO RAISE ELECTRICITY PRICES, TO ORDER TWO CANDU REACTORS, TO STRETCH OUT THE LWR CONSTRUCTION PROGRAM, TO STRENGTHEN ENEL (NATIONAL ELECTRICAL UTILITY) FINANCIALLY, AND TO CONTINUE ITALIAN COOPERATION ON THE SUPER-PHOENIX. ALTHOUGH THE NUCLEAR PROGRAM REMAINS SUBSTANTIAL, THERE IS A PERCEPTIBLE INCREASE IN THE ATTENTION GIVEN TO OTHER ASPECTS OF THE ENERGY SITUATION, ESPECIALLY CONSERVATION, USEE OF COAL, AND ALTERNATIVE ENERGY SOURCES. IN ADDTION, THE DOMINANCE OF THE MINISTRY OF INDUSTRY (MINISTER DONAT-CATTIN, WHOSE HEAD ENERGY MAN IS AMMASSARY) OVER ALL ASPECTS OF ENERGY POLICY IS APPARENTLY ESTABLISHED.

2. THE CIPE DECISIONS INCLUDE INSTITUTIONAL, FINANCIAL, REGU-LATORY AND RESEARCH AND DEVELOPMENT INITIATIVES IN SEVERAL MAJOR AREAS: ENERGY CONSERVATION AND ALTERNATIVE ENERGY SOURCES; HYDROCARBON SUPPLIES; ENEL RATES AND CONSTRUCTION PROGRAM; THE PROGRAM OF CNEN (NATIONAL COMMITTEE ON NUCLEAR ENERGY); THE NUCLEAR FUEL CYCLE; AND COORDINATION OF ENERGY POLICY. END SUMMARY.

3. THE INITIATIVES IN ENERGY CONSERVATION AND ALTERNATIVE ENERGY SOURCES REMAIN VERY GENERAL AND PRELIMINARY. THE MINISTRY OF INDUSTRY AND COMMERCE (MOI) IS TO TAKE THE LEAD IN PROPOSING WAYS TO ENCOURAGE
COGENERATION OF ELECTRICITY AND HEAT AS WELL AS IN PREPARING AN ENERGY CONSERVATION PLAN WITHTARGET DATES 1985 AND 1990. THE MOI

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IS ALSO TO PROPOSE STATE-SUBSIDIZED SOLAR ENERGY DEMONSTRATION PROJECTS AIMED AT ESTABLISHING THE ITALIAN POSITION IN THE EXPORT MARKET. ENEL AND ENI (THE NATIONAL HYDROCARBONS AGENCY) ARE CALLED ON TO INCREASE THE USE OF COAL AND GEOTHERMAL RESOURCES FOR ELECTRICAL GENERATION. CIPE ESTIMATES THAT COAL STEAM ELECTRIC PLANTS WILL REQUIRE 5 MILLION TONS PER YEAR IN 1980, A FIGURE THAT MAY INCREASE TO 9 MILLION TONS BY 1990 (COMPARED TO 2.1 MILLION METRIC TONS USED IN 1974). GEOTHERMAL RESOURCES, WHICH ARE NOW USED ONLY FOR ELECTRICAL GENERATION, ARE TO BE CONSIDERED AS WELL FOR LOW-TEMPERATURE APPLICATIONS.

4. FOR HYDROCARBONS, THE MAJOR THRUST OF ITALIAN POLICY (EXE-CUTED PRIMARILY BY ENI) REMAINS SECURITY OF SUPPLY THROUGH DIVER-SIFICATION OF SOURCES, LONG-TERM CONTRACTS, AND INCREASED DE-VELOPMENT EFFORTS IN THE OIL-PRODUCING COUNTRIES. THE MAJOR INNOVATIONS IN THIS SECTOR ARE CIPE DECISIONS AIMED AT REDUCING OVER-CAPACITY IN ITALIAN PETROLEUM REFINING. FOR ADDITIONAL INFORMATION ON THIS ASPECT OF THE DECISIONS SEE REF E.

5. THE CIPE DECISIONS AFFECT THE ENEL NUCLEAR PROGRAM SUBSTAN-TIALLY. A TOTAL OF 12 1000/MW LIGHT-WATER REACTORS ARE STILL ENVISAGED, BUT QTE AT LEAST UNQTE 6000 MW ARE PROJECTED TO BE IN

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OPERATION BY 1985 RATHER THAN THE PREVIOUSLY PROJECTED 8000 MW (REFTEL A). LETTERS OF INTENT HAVE BEEN SIGNED FOR FOUR OF THESE PLANTS. FOUR MORE PLANTS ARE TO BE ORDERED QTE IMMEDIATELY UNQTE; BEFORE THE THIRD SET OF FOUR ARE ORDERED PARLIAMENT MUST BE CONSULTED. THE CIPE DECISIONS ALSO CALL FOR TWO 600 MW CANDUS (ONE FOR SICILY AND ONE FOR SARDINIA). COMMENT: ALTHOUGH IN PRINCIPLE THE 6000 MW PROJECTED FOR 1985 ARE A MINIMUM, WE WOULD REGARD THAT FIGURE AS A MAXIMUM. OFFICIALLY, THE CANDUS ARE REGARDED AS ADDITIONS TO THE NUCLEAR PROGRAM, BUT IN FACT WE MIGHT REGARD THEM AS REPLACING ONE OR PERHAPS TWO OF THE LWR'S THAT WERE EARLIER PROJECTED FOR COMPLETION BY 1985. END COMMENT. ENEL IS TO PLAY THE ROLE OF ARCHITECT AND GENERAL CONTRACTOR FOR ALL OF THE LWR'S TO BE ORDERED IN THE FUTURE (I.E. THE LAST EIGHT PLUS THE CANDUS); NONE ARE TO BE BUILT ON A TURNKEY BASIS.
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6. IN ADDITION TO THESE SHIFTS INTHE NUCLEAR PROGRAM, THE CIPE DECISIONS STRENGTHEN ENEL'S FINANCIAL RESOURCES IN AN EFFORT TO BALANCE ITS BUDGET BY THE END OF 1981 (REFTEL B). THE STATE WILL CONTRIBUTE THREE TRILLION LIRE (ABOUT 3.5 BILLION DLRS); 100 BILLION LIRE IN 1978; 500 BILLION IN 1979; 1100 BILLION IN 1980, AND 1300 BILLION IN 1981. ENEL RATES TO BE REVISED ANNUALLY, WITH A 16 PERCENT INCREASE IN TOTAL REVENUES THE GOAL FOR 1978.

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R 161730Z MAR 78
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AMEMBASSY CANBERRA

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AMEMBASSY COPENHAGEN
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7. SEVERAL FURTHER CIPE DECISIONS ESTABLISH A CLEAR DOMINANCE OF THE MOI OVER ENEL. THE MOI IS TO CHOOSE SITES FOR NEW NUCLEAR POWER PLANTS; IT IS TO STUDY ENEL'S ORGANIZATIONAL STRUC-TURE; AND IT IS TO DIRECT MEASURES TO LEVEL THE DAILY LOAD
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DURATION CURVE, TO ENCOURAGE COGENERATION, AND TO INCREASE THE USE OF COAL.

8. CNEN, WHICH HAS LONG SUFFERED FROM LESS THAN BENIGN NEGLECT, HAS BEEN IN A DEMORALIZING STATE OF LIMBO SINCE LAST SUMMER, WHEN THE TERMS OF ITS BOARD AND PRESIDENT EXPIRED. NO NEW APPOINTMENTS HAVE BEEN MADE. THE PRESENT CIPE DECISIONS ARE APPARENTLY AIMED AT REINVIGORATIN CNEN BY TURNING IT AWAY FROM RESEARCH TOWARD DEVELOPMENT AND EVEN COMMERCIAL ACTIVITIES. CNEN'S CONSTITUTION IS TO BE AMENDED TO PERMIT IT TO PARTICIPATE IN COM-MERCIAL VENTURES AS A SHAREHOLDR, THE CNEN STAFF ARE TO BE GIVEN WORKING CONDITIONS COMPARABLE TO PRIVATE INDUSTRY, AND CNEN'S FIVE-YEAR PLAN (1979-1983) IS TO BE REWRITTEN IN A MORE QTE INDUSTRIAL UNQTE DIRECTION.

9. FOR THE NUCLEAR FUEL CYCLE AS A WHOLE, THE MAJOR INNOVATION IN THE CIPE DECISIONS IS THE COORDINATING ROLE GIVEN TO THE MOI, WHICH IS TO MEDIATE BETWEEN ENI AND CNEN (ESPECIALLY WITH REGARD TO URANIUM ENRICHMENT) AS WELL AS BETWEEN ENEL AND ENI TO ENSURE COMPATIBLE PROGRAMS. IN ADDITION, A NEW ORGANIZATION (AGIP NUCLEARE CNEN) IS TO BE FORMED TO MANAGE THE BACK-END OF THE FUEL CYCLE, WITH AGIP NUCLEARE THE MAJORITY STOCKHOLDER AND PARTICIPATION OPEN TO ENEL. IT IS PRESUMABLY THIS NEW ORGANI-ZATION THAT WILL EMBARK ON ITALY'S REPROCESSING OF LWR SPENT FUEL TO SUPPLY PLUTONIUM FUEL FOR AN LMFBR. CNEN WILL PLAY A MAJOR

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ROLE IN WASTE DISPOSAL, RECOMMENDING TO THE MOI APPROPRIATE SITES. THE MOI WILL SELECT A SITE WITHIN SIX MONTHS OF THE CIPE DECISIONS (AFTER CONSULTATIONS WITH THE DEFENSE AND INTERIOR MINISTRIES).

10. FINALLY, THE CIPE DECISIONS ESTABLISH THE COORDINATING ROLE OF THE MOI IN ALL ASPECTS OF THE NATIONAL ENERGY PLAN. A SEPARATE ENERGY INSTITUTION IS ENVISAGED IN THE FUTURE, BUT FOR THE LIMITED OFFICIAL USE

MOMENT THE LEAD ROLE IS GIVEN EXPLICITLY TO THE DIRECTOR GENERAL FOR ENERGY SOURCES (AMMASSARI) IN THE MOI, WHO WILL FORM A TECHNICAL WORKING LEVEL COMMITTEE WITH REPRESENTATION FROM THE MINISTRIES OF FOREIGN AFFAIRS, FOREIGN TRADE, STATE HOLDINGS AND BUDGET. THE DIRECTOR GENERAL FOR ENERGY SOURCES IS EXPLICITLY AUTHORIZED TO CONTINUE HIS USE OF PERSONNEL FROM OTHER MINISTRIES AND FROM PUBLIC COMPANIES UP TO THE LIMIT OF 50 PEOPLE.

11. COMMENT: INDICATIONS ARE THAT AMMASSARI PLAYED KEY ROLE IN CIPE DECISION, BOTH AS REGARDS HIS OWN POSITION AND GENERAL DIRECTIONS OF ENERGY POLICY.
IN ADDITION TO THE DETAILED PROVISIONS SUMMARIZED ABOVE, THE DECISIONS INDICATE SEVERAL SHIFTS IN EMPHASIS. FIRST, NON-NUCLEAR TECHNOLOGIES PLAY A BIGGER (ALBEIT STILL SMALL) ROLE THAN EVER BEFORE, ESPECIALLY COAL AND SOLAR. SECOND, RESEARCH VIRTUALLY DISAPPEARS IN FAVOR OF MORE DIRECTLY APPLICABLE ACTIVITIES. THE ONLY RESEARCHAND DEVELOPMENT PROGRAMS MENTIONED EXPLICITY ARE SOLAR DEMONSTRATION PROJECTS FOR THE SOUTH, THE SUPER-PHOENIX, THE CIRENE (AN ITALIAN HEAVY-WATER, NATURAL URANIUM REACTOR) AND PEC (A PROGRAM FOR MAKING AND TESTING FUEL ELEMENTS). ALL OF THESE ACTIVITIES ARE PERCEIVED HERE AS HAVING NEAR-TERM INDUSTRIAL APPLICATIONS. THERE ARE ALSO SEVERAL HINTS OF ITALY'S GROWING DESIRE TO BUILD A STRONG NUCLEAR EXPORT BUSINESS.

12. WHAT DO THESE CIPE DECISIONS MEAN IN PRACTICE FOR THE U.S.?
FIRST, THE LWR CONSTRUCTION PROGRAM HAS BEEN FURTHER REDUCED OR DELAYED. NATURALLY, THIS MEANS FEWER
GE AND WESTINGHOUSE REACTORS TO BE BUILT HERE BEFORE 1985.
AT THE SAME TIME, WE WOULD EXPECT THAT
THE EXPORT-IMPORT BANK WILL BE APPROACHED IN THE
NEAR FUTURE FOR FINANCING IN CONNECTION WITH NEW REACTORS.

13. ONE MIGHT THINK THAT THIS FURTHER DELAY WOULD LEAD TO PROBLEMS IN MEETING PROJECTED ELECTRICAL DEMAND IN ITALY, BUT WE DOUBT THAT WILL BE THE CASE. ENEL'S DEMAND FORECASTS ARE IF ANYTHING ON THE HIGH SIDE: THEY ASSUME A GNP GROWTH RATE AND MULTIPLY

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BY A FACTOR AROUND 1.6 (IT VARIES FOR DIFFERENT YEARS). THE RESULTING PERCENTAGE IS THE ELECTRICAL DEMAND GROWTH RATE. DEMAND ELASTICITIES RELATED TO INCREASES IN ENEL RATES, SUCH AS THOSE PROVIDED FOR BY THE CIPE, ARE NOT RPT NOT TAKEN INTO ACCOUNT. IN FACT, THE ONLY FACTORS TAKEN INTO ACCOUNT ARE GNP GROWTH AND AN ASSUMED GREATER CONSUMER USE OF ELECTRICITY WITH HIGHER STANDARD OF LIVING.

14. THIS METHOD HAS, IN OUR VIEW, OVERESTIMATED PROJECTED ELECTRICAL DEMAND. IF THIS IS SO, THE EXPORT-IMPORT BANK SHOULD BE ESPECIALLY CAREFUL IN EVALUATING PROJECTIONS OF ENEL REVENUES. IF ONE MULTIPLIES INFLATED DEMAND FIGURES BY INCREASED ELECTRICAL RATES, ONE COULD OBTAIN SOME VERY UNREALISTIC FIGURES FOR ENEL REVENUES.

15. IN PRINCIPLE, ENEL'S FINANCIAL DIFFICULTIES MAY BE RESOLVED, BUT THE CIPE DECISIONS LEAVE MANY OTHER FINANCIAL PROBLEMS. THE COMMERCIAL AND INDUSTRIAL THRUST OF THE DECISIONS WILL BE LOST UNLESS SUBSTANTIAL INCREASES IN FINANCING ARE PROVIDED FOR CNEN AND OTHER ORGANIZATIONS. IN ADDITION, ENI FACES SERIOUS DIFFICULTIES UNLESS THE ITALIANS ARE ABLE TO FIND UNOUGH URANIUM TO MEET THEIR ENRICHMENT CONTRACTS (SEE REFTELS C AND D).
THE CIPE DECISIONS, AND IN PARTICULAR THE FURTHER DELAY IN LWR CONSTRUCTION, CONFIRM OUR GROWING SUSPICION THAT ENRICHMENT CONTRACTS, NOT THE NEED FOR NUCLEAR FUEL, ARE THE DRIVING FORCE BEHIND ITALY'S EXTENSIVE SEARCH FOR URANIUM SUPPLIES. END COMMENT.GARDNER

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